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Contingent liability reserve for the United Nations Postal Administration

Report of the Secretary-General

Summary

The present report is submitted pursuant to section III of General Assembly resolution 61/252 and the related observations and recommendations of the Advisory Committee on Administrative and Budgetary Questions contained in its report (A/61/480) on the report of the Secretary-General on the contingent liability reserve for the United Nations Postal Administration (A/61/295).

In the present report the Secretary-General provides further information on the issue of reducing the risk posed to the United Nations Postal Administration by the use of its services for commercial and bulk mail, describes options other than the establishment of the contingent liability reserve for the United Nations Postal Administration, the status of negotiations between the United Nations Postal Administration and postal authorities and further elaboration of the proposals contained in the above-mentioned report of the Secretary-General on the contingent liability reserve for the United Nations Postal Administration.

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I. Introduction

1. The United Nations Postal Administration (UNPA) was established by the General Assembly in its resolution 454 (V) of 16 November 1950. A primary objective in creating UNPA was the promotion of the aims and activities of the United Nations to the rest of the world through the issuance of United Nations postage stamps.

2. United Nations postage stamps can only be posted at the three issuing stations, New York, Vienna and Geneva. The agreements with the postal authorities of the United States of America, Austria and Switzerland state that the respective post offices would be reimbursed for mailing charges for United Nations stamps. Over the past 20 years UNPA has paid on average 12.2 per cent of its income of $249.2 million for the period to the respective postal services for mailing, representing an annual postage charge of approximately $1.5 million. It can therefore be assumed that 12.2 per cent of the stamp sales have been presented for mailing and 87.8 per cent constitute a contingent liability inasmuch as there is the theoretical possibility that such stamps could be presented for mailing at any time at UNPA post offices. No provision has been made to cover such a liability.

3. In his previous report on this subject (A/61/295), the Secretary-General requested approval for the establishment of a reserve for contingent liability for postal services for previously issued UNPA stamps and approval, as an exception to regulation 3.14 and rule 103.7 of the Financial Regulations and Rules of the United Nations, for the funding of the reserve by transferring the balance of net income of postal services to the reserve until a ceiling level of $3.3 million had been reached.

4. The proposal contained in the previous report of the Secretary-General is in line with the recommendation contained in the report of the Board of Auditors (A/61/5, Vol. I, para. 477), in which the Board advocated that UNPA consider setting up a contingency fund from sales revenue to cover the mailing charges of pre-sold United Nations stamps in the event that customers might use the stamps in the future.

II. Update on the previous report of the Secretary-General

5. The likelihood of previously issued stamps being presented for mailing with the United Nations has been estimated by UNPA. Benchmarking information from other postal authorities was not available, as none have postal operations similar to that of UNPA. However, it is clear that the majority of individual collectors will not use the stamps from their collections for mailings since most collectors are not located near UNPA offices. As stated by the Secretary-General in his previous reports, there is a risk of bulk mailers presenting items to the United Nations for mailing using United Nations stamps purchased on the open market. Many previously issued United Nations stamps have no collection value. This is particularly the case for so-called "definitive stamps", which are issued in denominations suitable for regular mail delivery.

6. In the 1950s, 1960s and 1970s, UNPA issued "definitive stamps" in large quantities. These stamps are now being sold off, as collectors have stopped collecting them. Stamp dealers and mailing houses advertise in the philatelic market that they will buy UNPA collections at a price significantly below the face value.

These companies tend to be located near United Nations sites so as to use the stamps acquired at below face value at United Nations postal offices. UNPA has made efforts to restrict the possibility of such companies to using UNPA for the forwarding of mail items. Currently, United Nations Headquarters is the location most exposed to the danger of bulk mailers presenting items for processing.

7. In addition to direct appeals to stamp dealers using United Nations stamps for mass mailing, the measures described below have reduced the exposure of the United Nations to mail charges by 70 per cent since its peak in 2002. In 2006, the UNPA had gross sales of $6.9 million and paid $812,000, or 11.8 per cent of sales, for mailing charges. An estimated $470,000, or 6.8 per cent, covered bulk mail charges, $256,000 in New York and $214,000 in Vienna. The total costs incurred in 2005 for bulk mailing charges, as noted in document A/61/295, were $330,897. While remaining near the lowest historical levels, the increase in 2006 for bulk mail charges reflects the collapse of a prominent global stamp trading company in 2006. The company was a major sales outlet for many smaller stamp traders who had built up stocks of stamps from various sources, including UNPA, with the expectation of selling them to the large trading firm. Some of these companies are now using their stock to offer mail services. A limited number of companies concentrate on offering such services using United States-denominated UNPA stamps. In the light of this unforeseen event impacting bulk mail charges during 2006, the Secretary-General considers that the original estimate of a contingency liability reserve of $3.3 million (10 times the 2005 bulk mailing charges) should remain.

8. Effective 1 June 2007, UNPA is putting in place a new stringent policy to restrict large consignment mail or bulk mail, which is expected to significantly reduce bulk mail charges further while maintaining mail services for philatelic purposes, as outlined in the United Nations agreement with the United States Postal Service. The measures included in the new policy are outlined below.

A. Measures to limit mail charges

New York

9. UNPA's new policy restricts the use of the UNPA for mass mailing. All mail to be sent through the UNPA counter has to be carried by hand into the building and cannot be transported in large containers. It is subject to security screening, including the X-raying of all items. The absence of parking space further limits the amount of mail that can be brought to UNPA for mailing. Effective 1 June 2007, UNPA will refuse to accept mail that can be identified as "commercial business mail". The postal agreement between the United States of America and the United Nations only authorizes UNPA to "maintain a separate agency for the sale of United Nations postage stamps for philatelic purposes ...". Commercial business mail clearly does not fall into this category. As a result, such mail cannot be accepted by UNPA for forwarding and mailing through the United States Postal Service.

10. Since the submission of the previous report, UNPA has taken further steps towards the introduction of a surcharge or handling fee for mass mailing. When approached, the United States Postal Service did not object to UNPA charging handling fees for mass mail. In addition, the advice of the Office of Legal Affairs of the Secretariat has been sought to confirm that such a charge is compatible with the UNPA agreement with the United States authorities.

11. The United States Postal Service is also assisting UNPA to further limit mass mailing and is exploring the possibility of restricting the type of mail services offered by the United States Postal Service on behalf of the United Nations at the Headquarters, thus further limiting the possibility of using UNPA for such mail.

Vienna

12. After the introduction of the euro on 1 January 2002, United Nations postage stamps issued in Austrian shillings were accepted in exchange for euro-denominated stamps for a period of one year. Since then, UNPA no longer accepts mail using shilling-denominated UNPA stamps. Since UNPA has also reduced the overall volume of stamps produced and sold into the open market, euro-denominated stamps are not sold on the secondary market at a discount. As a result, bulk mailing using such stamps is not economical. Since UNPA is not likely to increase production to levels of the earlier trading years, it is not expected that a secondary market for discounted euro-denominated stamps will arise in the future. UNPA accepts commercial mail using regularly purchased euro-denominated United Nations stamps but charges a 10 per cent handling fee. Some companies choose United Nations stamps for their prestige and design. Since UNPA uses the Austrian postage discount negotiated by the United Nations Office at Vienna for these mailings and charges a handling fee, this is a profitable undertaking for UNPA and does not pose a risk.

Geneva

13. Following discussions with the Swiss postal authorities, Swiss Post advised UNPA that it no longer accepts external commercial mail under its agreements with the United Nations. Consequently, UNPA at the United Nations Office at Geneva no longer accepts commercial external mailing.

B. Status of negotiations between the United Nations Postal Administration and postal authorities in the United States, Austria and Switzerland

14. As indicated above, the United Nations forwards mail using United Nations stamps to the mail services of the United States, Austria and Switzerland for mailing. The UNPA offices in Vienna and Geneva are able to use the reduced postage rate negotiated by the United Nations with the local authorities for the overall mail volume of the United Nations. Those contracts are periodically renegotiated and re-bid and the discount rates adjusted accordingly.

15. The volume of first class mail processed by UNPA at Headquarters, including regular as well as UNPA mail, and the extensive pre-sorting requirements of the United States Postal Service do not allow United Nations mail to qualify for United States Postal Service volume discounts. This was confirmed most recently in February 2007 by representatives of the United States Postal Service.

16. The United Nations will continue its efforts to explore the possibility of obtaining discounts for first class mail for its New York-based operations. UNPA will also continue to work with the United States Postal Service to reduce or

eliminate the use of UNPA for mass mailing. The United States Postal Service has been very supportive of UNPA efforts in this regard.

C. Options other than the establishment of the contingent liability reserve for the United Nations Postal Administration

17. Should the establishment of a contingent liability reserve not be pursued, the primary alternative would be to continue the current practice of expensing all bulk mailing costs as they are incurred. While the absorption of small amounts of bulk mailings, as in the past, is possible, in view of the possible amounts involved, the absorption of increased costs could lead to significant, and possibly unsustainable, erosion in the real volume of resources available. As it is not possible to accurately foresee in advance if and when the bulk mailing risk would arise, the Organization may be unable to generate net income or savings of the magnitude required during a given biennium. In the light of this fact, in his previous report, the Secretary-General proposed the establishment of a contingent liability reserve. Should bulk mailings increase significantly, the absorption of such expenditures is not an alternative that can be practically implemented as attempts to absorb increased expenditures would severely impact programme implementation.

18. Irrespective of the long-term funding of the contingent liability, it must be recognized that the financial statements of the United Nations are prepared in accordance with United Nations System Accounting Standards, which require that contingent liabilities be disclosed in the notes to the financial statements. As noted in the paragraphs above (notably para. 7 regarding an estimated contingent liability reserve of $3.3 million), there continues to be difficulty in estimating the value of the UNPA contingent liability for stamps that have been sold and that may be presented for mailing in future. Nevertheless, in accordance with the United Nations System Accounting Standards, the Secretary-General intends to disclose the nature of the contingent liability with respect to UNPA operations in the notes to the United Nations financial statements for the biennium 2006-2007, including the estimated value of such contingent liability as can be reasonably determined.

III. Conclusion and recommendations

19. There are two options presented: (a) the continuation of the current practice with the absorption of extra costs related to bulk mailings, as and when necessary; and (b) establishment of a contingent reserve as originally proposed in the previous report of the Secretary-General on the contingent liability reserve (A/61/295).

20. The continuation of the current practice involves an inherent commitment on the part of Member States to meet the financial obligations that may arise at some stage as a result of bulk mailings. While the utilization of the gains received in periods when net income is generated does not normally present a difficulty, there must be a willingness to meet, through additional appropriations, the additional expenditure requirements that may arise during those periods when there are insufficient funds.

21. While the absorption of small expenditures related to bulk mailings may be possible, the absorption of large increases in such expenditures is not an alternative that can be practically implemented. Any attempt to absorb such expenditures could severely impact programme implementation. Consequently, the creation of a reserve fund remains the best alternative method.

22. The establishment of a reserve fund would not necessarily provide greater predictability of expenses or overall net income, however, it would allow a mechanism at the outset of a biennium to provide for potential costs arising from bulk mailings that cannot be offset by net income generated. Unlike some reserve funds where Member States could be presented with an unnecessary financial burden by having to pay assessments in advance that might prove to be unnecessary, the proposed reserve would be funded by net income generated and set aside, thereby eliminating the need for Member States to pay in advance.

IV. Action to be taken by the General Assembly

23. The General Assembly may wish to:

(a) Approve the creation of a reserve for contingent liabilities for postal services for previously issued UNPA stamps;

(b) Approve, as an exception to financial regulation 3.14 and rule 103.7, the funding of the reserve by transferring the balance of net income of postal services to the reserve until a ceiling level of $3.3 million is reached.